

Service Date: June 18, 2014

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

| | | |
|---------------------------------------|---|-----------------------|
| IN THE MATTER OF NorthWestern |) | REGULATORY DIVISION |
| Energy's 2012-2013 Electricity Supply |) | |
| Tracker |) | DOCKET NO. D2013.5.33 |
| |) | ORDER NO. 7283a |
| IN THE MATTER OF NorthWestern |) | |
| Energy's 2013-2014 Electricity Supply |) | DOCKET NO. D2014.5.46 |
| Tracker |) | ORDER NO. 7283a |

INTERIM ORDER

PROCEDURAL HISTORY

1. NorthWestern Corporation, doing business as NorthWestern Energy (NorthWestern), filed its 2012-2013 Electricity Supply Tracker on May 31, 2013. The Montana Public Service Commission (Commission) issued *Interim Order 7283* on June 18, and granted intervention to the Montana Consumer Counsel, Natural Resources Defense Council and Human Resource Council District XI on August 2, 2013.

2. The Commission consolidated the 2013 and 2014 Trackers on May 6, 2014, *Notice of Commn. Action*, Dkt. D2013.5.33 (May 12, 2014), and NorthWestern filed its 2013-2014 Electricity Supply Tracker on May 29, 2014.

3. On May 31, 2014, the Commission issued a *Notice of Application and Intervention Deadline*, setting an intervention deadline for the 2014 Tracker of July 18, 2014.

FINDINGS OF FACT

4. NorthWestern requests a change in electric supply rates to reflect:

(1) Amortization of a net under-collection of \$32,044,199 in the Electric Supply Deferred Costs Account Balance (Deferred Account Balance) for the 12 months ending June 30, 2014; and

(2) projected load, supply, and related electric costs for the 12-months ending June 30, 2015.

Application for Interim Elec. Rate Adjustment, Dkt. D2014.5.46, App. A (May 29, 2014).

According to NorthWestern, approval will result in an increase of \$5.03 per month or \$60.36 per year for the typical residential customer using 750 kilowatt-hours per month. NorthWestern requested that the Commission grant an interim rate adjustment effective July 1, 2014.

5. The prior Deferred Account Balance for the 2012-2013 tracker period represents an under-collection of \$3,224,459 for market-based supply costs, an under-collection of \$56,834 for Colstrip Unit 4 (CU4) variable costs/credits, and an under-collection of \$2,747,796 for Dave Gates Generating Station (DGGS) variable costs/credits.

6. The current Deferred Account Balance for the 2013-2014 tracker period represents an under-collection of \$31,096,261 for market-based supply costs, an over-collection of (\$2,724,423) for CU4 variable costs/credits, an over-collection of (\$2,372,576) for DGGS variable costs/credits, and an under-collection of \$15,848 for Spion Kop variable costs/credits.

7. The net of the current and prior Deferred Account Balances is an under-collection of \$32,044,199 as of June 30, 2014. NorthWestern proposes to amortize this amount through Deferred Electric Supply Rates.

8. The Electric Supply Rate, which is designed to collect \$370,045,712 during the 2014-2015 tracking year, consists of market-based supply costs totaling \$218,563,153; CU4 fixed costs totaling \$75,995,480; CU4 variable costs totaling \$26,103,790; DGGS fixed costs totaling \$28,616,562; DGGS variable costs totaling \$12,043,436; Spion Kop fixed costs totaling \$8,705,318; and Spion Kop variable costs totaling \$17,976. This represents an increase in electric supply costs of \$5,827,953 for the 2014-2015 tracker period.

9. Taken together, NorthWestern's Electric Supply Rate and Deferred Electric Supply Rate are designed to collect a total of \$402,089,914 in revenue.

10. The Commission allows NorthWestern to adjust Electric Supply Rates on a monthly basis based on "rolling 12-month forecasts of default supply costs and loads." Or. 6496f / 6574e p. 57 (Dec. 14, 2005). Monthly tracker adjustments remain subject to annual review and approval (or disallowance) by the Commission.

CONCLUSIONS OF LAW

11. The Commission has full power of supervision, regulation, and control of public utilities. Mont. Code Ann. § 69-3-201 (2013). NorthWestern is a "public utility" subject to regulation by the Commission. *Id.* at § 69-3-101.

12. The Annual Electric Supply Tracker is the “electricity cost recovery mechanism that allows [NorthWestern] to fully recover prudently incurred electricity supply costs, subject to the provisions of 69-8-419, 69-8-420, and [C]ommission rules.” *Id.* at § 69-8-210(1).

“Electricity supply costs” are “the actual costs incurred in providing electricity supply service through power purchase agreements, demand-side management, and energy efficiency programs,” including any costs “directly related to the purchase of electricity and the management and provision of power purchase agreements.” *Id.* at § 69-8-103(8).

13. The Commission has authority to temporarily approve increases or decreases in rates pending a hearing or final decision. *Id.* at § 69-3-304. An interim rate change “shall be based upon consistent standards appropriate for the nature of the case pending.” *Id.* Temporary approval of rates does not constitute final endorsement by the Commission of any issues, calculations, or methodologies in this proceeding.

14. If the rates approved in a final order represent an increase or decrease from interim rates, the Commission may order a rebate or surcharge for the appropriate amount retroactive to the date of the temporary approval. *Id.* If the Commission orders a rebate or surcharge, it “shall order interest to be paid on [the] rebate or surcharge as determined by the [C]ommission.” *Id.* These rebate provisions protect NWE and its customers until the Commission issues a final order in this proceeding.

ORDER

IT IS HEREBY ORDERED THAT:

15. NorthWestern may continue using a monthly electric tracker approved on an interim basis by the Commission;

16. NorthWestern’s proposed Electric Supply Rates are approved for service rendered on and after July 1, 2014 on an interim basis;

17. NorthWestern’s proposed Deferred Electric Supply Rates are approved for service rendered on and after July 1, 2014 on an interim basis; and

18. Any interest associated with a refund that the Commission may order in these consolidated Dockets will be computed at 10.25%, which is the cost of equity approved by the Commission in Docket D2009.9.129.

DONE IN OPEN SESSION at Helena, Montana, on this 17th day of June 2014 by a vote of 4 to 1. Commissioner Kavulla dissenting.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

W. A. GALLAGHER, Chairman

BOB LAKE, Vice Chairman

KIRK BUSHMAN, Commissioner

TRAVIS KAVULLA, Commissioner (Dissenting)

ROGER KOOPMAN, Commissioner

ATTEST:

Judy Scheier
Assistant Commission Secretary

(SEAL)

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DISSENTING OPINION OF COMMISSIONER TRAVIS KAVULLA

Several years ago, in arguing that the Commission brush aside concerns about the integrity of Colstrip Unit 4 (CU4), NorthWestern Energy insisted that there was nothing to worry about. The plant was said to be not merely in satisfactory working order, if old and liable to periodic forced outages. Instead, an extravagant claim was made; that CU4 was “an extremely well-maintained facility to which the owners have made, and continue to make, systematic capital improvements, making the plant at least as good as when it was new, if not better.” *See NorthWestern Opposition to Mont. Consumer Counsel Mot. for Reconsideration of Or. 6925f*, Dkt. D2008.6.69, p. 3 (Dec. 2, 2008).

Since that time, CU4 has suffered two significant forced outages that have left the plant unavailable to serve customers for nearly one-fifth of the time since NorthWestern consumers began paying for the plant about five years ago. (Additionally, the plant has been uneconomical to run, because of low-price market conditions primarily in the spring and early summer, for another significant period of time.) NorthWestern itself has suffered no adverse financial consequences as a result of the plant's poor performance. Consumers have continued to pay NorthWestern its return on investment in the plant even while it has been out of service, and in addition consumers have also (here and in a previous proceeding) made the utility whole, dollar for dollar, for all market purchases it made to replace CU4's output. The utility appears to have no financial incentive at stake in whether the plant operates, or not; it makes the same profit either way.

The financial consequences of the second of those major outages, which lasted from July 2013 to January 2014, are manifest in this proceeding and, as in the last outage, are entirely

placed upon the shoulders of consumers. Through its application, the company proposes both a complete recovery of all fixed and variable costs associated with CU4—including a 8.25% annual return on investment, amounting to nearly \$20 million payable for the time during which the plant was out of service—as well as all the costs associated with market purchases to replace CU4’s expected output. *See Test. of Frank V. Bennett*, Dkt. D2014.5.46, Annual CU4 True-Up, Exh. 4, p. 1 (May 29, 2014).

While it seemed to have disregarded the Montana Consumer Counsel’s warnings about the integrity of the plant during the pre-approval process, the Commission indicated in its Order pre-approving the acquisition that it would “conduct rigorous examinations in annual supply trackers of the prudence of NWE’s expenses related to CU4.” Or. 6925f at ¶ 227. In this proceeding, NorthWestern should be expected to explain both the prudence of its plant operations and of the replacement power purchases the outage caused it to make.

The application falls well short of the mark in both respects. NorthWestern does not provide a comprehensive explanation of the cause of the plant outage, nor does it outline the steps that were taken to make the plant operational again. NorthWestern does not detail what market transactions replaced the CU4 output, and it asserts that assessing the costs of the outage would be nearly impossible. *See Test. of Kevin J. Markovitch*, Dkt. D2014.5.46, p. 10 (May 29, 2014). This last claim is particularly risible. Of course no precise number can be calculated. In virtually every matter that is heard by the Commission, parties and commissioners must rely on best guesses, estimates, and assumptions. Here, the task is surely not impossible. It is possible to compare what NorthWestern expected in terms of CU4 output and market purchases before the outage occurred, to the actual output of CU4 and market purchases during the period of the outage. In doing so, an initial, educated guess of the financial consequences of the outage can be derived. That amounts to just over \$11 million. *See Ex. A* (attached).

In my view, the mere two pages of testimony offered in relation to NorthWestern’s handling of the Colstrip outage does not constitute sufficient information to support approving the recovery of these costs from consumers on an interim basis. The Commission should expect that a request for recovery of replacement power costs be accompanied by at least a best-guess attempt to isolate and quantify them, as well as a thorough explanation of the outage, how the plant was made operational again, and how the utility went about purchasing replacement power.

In both of the last electric tracker dockets, the Commission excluded from interim recovery costs of replacement power purchases beyond what it would have been expected to cost to run the plant, were it operational. Or. 7219a, Dkt. D2012.5.49, ¶ 21 (July 17, 2012) (“The Commission finds that adopting this approach, based on DGG’s expected operations, is reasonable for purposes of interim ratemaking.”); *see also* Or. 7283, Dkt. D2013.5.33, ¶ 12 (June 18, 2013). The Commission should have abided by its precedent here, and excluded from interim recovery the amount of \$11,135,466 associated with NorthWestern’s deferred supply account. This amount reflects the Commission staff’s best guess, given the information available at present, of the incremental costs of the outage, beyond the ordinary fixed and variable costs of CU4 that could have been expected were the plant operational. A more accurate number may be higher or lower than this amount. But it is at least a starting point around which the Commission can begin to fulfill the promise it made to ratepayers to “conduct rigorous examinations” of a facility the Commission pre-approved. Or. 6925f at ¶ 227.

I therefore respectfully dissent.

TRAVIS KAVULLA, Commissioner

| Exhibit A | | | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Estimated cost of Colstrip Unit 4 outage | Jul-13 | Aug-13 | Sep-13 | Oct-13 | Nov-13 | Dec-13 | Jan-14 | Total |
| Actual MWh with outage ¹ | 73,215 | 81,713 | 79,371 | 71,355 | 70,692 | 81,925 | 104,897 | 458,271 |
| Capacity factor ² | 88.7% | 98.9% | 99.3% | 86.4% | 88.5% | 99.2% | 98.9% | |
| Estimated MWh without outage ³ | 146,430 | 163,426 | 158,742 | 142,710 | 141,384 | 163,850 | 163,407 | 916,542 |
| Actual variable cost with outage ⁴ | 1,527,767 | 1,610,318 | 1,561,015 | 1,488,015 | 1,413,922 | 1,460,984 | 1,724,690 | 10,786,711 |
| Actual fuel cost with outage ⁴ | 1,258,603 | 1,344,565 | 1,297,141 | 1,233,848 | 1,126,537 | 1,359,517 | 1,516,331 | 9,136,542 |
| Fuel cost per MWh ⁵ | \$17.19 | \$16.45 | \$16.34 | \$17.29 | \$15.94 | \$16.59 | \$14.46 | |
| Estimated fuel cost without outage ⁶ | 2,517,206 | 2,689,130 | 2,594,282 | 2,467,696 | 2,253,074 | 2,719,034 | 2,362,118 | 17,602,540 |
| Estimated variable cost without outage⁷ | 2,786,370 | 2,954,883 | 2,858,156 | 2,721,863 | 2,540,459 | 2,820,501 | 2,570,477 | 19,252,709 |
| Estimated MWh lost from outage ⁸ | 73,215 | 81,713 | 79,371 | 71,355 | 70,692 | 81,925 | 58,510 | 516,781 |
| Actual monthly spot purchase prices ⁹ | 34.93 | 36.84 | 38.62 | 34.74 | 32.05 | 54.82 | 42.65 | |
| Cost to replace MWh lost from outage ¹⁰ | 2,557,400 | 3,010,307 | 3,065,308 | 2,478,873 | 2,265,679 | 4,491,129 | 2,495,452 | 20,364,147 |
| Cost of providing expected CU4 MWh with outage¹¹ | 4,085,167 | 4,620,625 | 4,626,323 | 3,966,888 | 3,679,601 | 5,952,113 | 3,457,459 | 30,388,175 |
| Change in supply cost from CU4 outage¹² | 1,298,797 | 1,665,742 | 1,768,167 | 1,245,025 | 1,139,142 | 3,131,612 | 886,982 | 11,135,466 |

Notes:

1. Reported in May 29, 2014 Electricity Supply Tracker, D2014.5.46, Exhibit_(FVB-1)13-14, p. 3
2. (Actual MWh / (111*hrs per month)) Reciprocal sharing agreement provides NWE 111 MW of PPLM's 222 MW share of CU3
3. (222 * capacity factor * hrs per month) Assumes CU4 would have operated at CU3 capacity factor absent the outage
4. Reported in May 29, 2014 Electricity Supply Tracker, D2014.5.46, Exhibit_(FVB-4)13-14, p. 2
5. (Actual fuel cost / actual MWh with outage)
6. (Estimated MWh without outage * Fuel cost per MWh)
7. (Estimated MWh without outage * Fuel cost per MWh)
8. One-half of estimated MWh without outage, based on reciprocal sharing agreement
9. Reported in May 29 Electricity Supply Tracker, D2014.5.46, Exhibit_(FVB-1)13-14, p. 5
10. (Estimated MWh lost from outage * spot purchase price) Assumes NWE replaced all lost production with spot purchases.
11. (Actual variable cost + Cost to replace MWh lost from outage)
12. (Cost of providing expected CU4 MWh with outage - variable cost without outage)